

**SERIES HH SAVINGS BONDS EARN 1.5%
BEGINNING JANUARY 1, 2003**

The Bureau of the Public Debt announced December 23 that Series HH savings bonds issued on and after January 1, 2003, earn 1.5 percent interest for their initial 10-year maturity period. The new rate replaces the 4.0 percent rate that has been in effect since March 1, 1993. The change was made to better align the effective return on savings bonds with marketable security yields.

The 1.5 percent rate also applies to older HH bonds that enter into an extended maturity period on and after January 1, 2003. If Series HH bonds with issue dates prior to January 1, 2003, are less than 10 years old on that date, they retain their current interest rates until the end of their 10-year initial maturity period. If the bonds entered their 10-year extended maturity periods before January 1, 2003, they retain their current interest rates until final maturity (20 years after date of issue) when they stop earning interest.

HH bonds are current-income securities issued only in exchange for Series E or EE bonds with current redemption values totaling at least \$500 at the time of exchange. HH bonds are issued in denominations of \$500, \$1,000, \$5,000 and \$10,000. Interest is paid semiannually to an owner-designated account at a commercial bank or savings institution. To be eligible for exchange, E and EE bonds must be at least six months old but not more than one year past final maturity.

The following questions and answers provide more detail about the change.

- Q.** How will the change in rates affect new HH savings bonds?
- A.** All new HH bonds issued on and after January 1, 2003, will earn an annual rate of 1.5 percent during their initial 10-year maturity period.
- Q.** Why is the rate changing?
- A.** We are changing the rate to better align the effective return on savings bonds with current market rates and conditions.
- Q.** When was the rate last changed?
- A.** March 1, 1993.

- Q.** How are HH bonds issued prior to January 1, 2003 affected?
- A.** HH bonds issued from January 1983 through December 1992 continue to earn their current rates to the end of their 20-year interest-bearing lives (final maturity). Bonds issued from January 1993 begin earning the new rate as they enter their 10-year extended maturity periods.
- Q.** How can I get HH bonds?
- A.** HH bonds are only issued in exchange for qualified Series E and EE bonds in amounts of \$500 or more. The total value of the bonds exchanged must be a minimum of \$500 at the time of exchange.
- Q.** If I submitted an exchange application but have not yet received my bonds, what is my issue date?
- A.** Valid applications, with purchase proceeds, received before January 1, 2003, will receive a December 2002 issue date.
- Q.** What Series E and EE bonds are eligible for exchange?
- A.** To be eligible for exchange, E and EE bonds must be at least six months old but not more than one year past final maturity.
- Q.** What denominations are available for Series HH bonds?
- A.** HH bonds are available in \$500, \$1,000, \$5,000, and \$10,000 denominations, with each denomination issued and redeemed at par (face value).
- Q.** What if the redemption value of my E/EE bonds is not an even multiple of \$500?
- A.** Persons requesting an exchange can add cash at the time of the exchange to reach the next even multiple of \$500, or receive a refund from the transaction to reach the next lower \$500 multiple.
- Q.** Is any tax-reporting mandatory for exchange transactions and HH bonds?
- A.** Interest earned on the HH bonds must be reported annually as it is earned. Any refund received from an exchange transaction is considered interest income, and is subject to Federal income tax, to the extent it does not exceed the total amount of interest earned on the bonds exchanged.
- Q.** How are HH interest payments made?

- A.** The first interest payment is made six months from the issue date. Interest payments continue semi-annually until the bonds are redeemed or reach final maturity.
- Q.** Where can I get more information on Series HH and other savings bonds?
- A.** More information on savings bonds can be found at the website www.savingsbonds.gov.